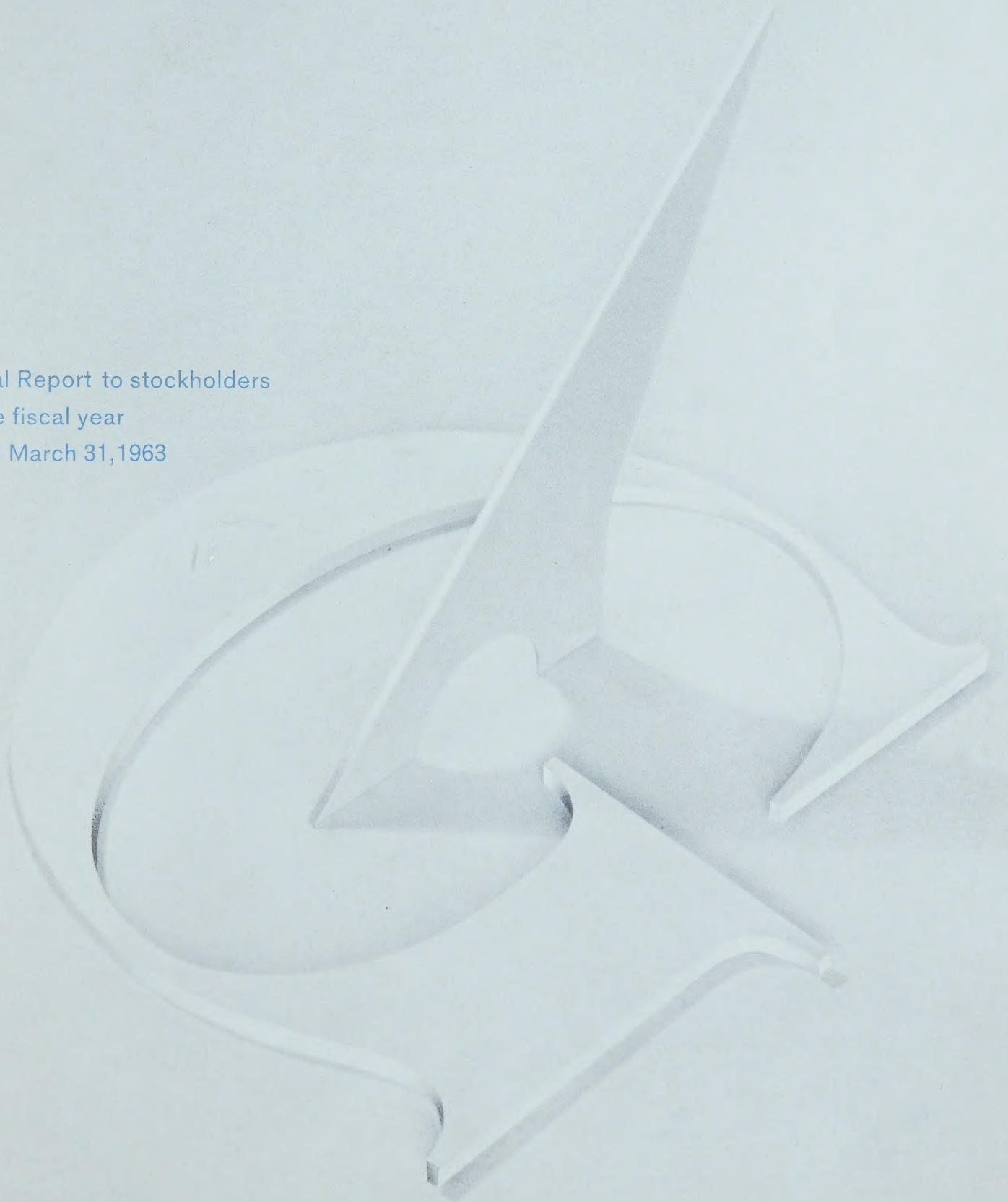



OUR 89TH YEAR

GRUEN INDUSTRIES, INCORPORATED

AR32

Annual Report to stockholders
for the fiscal year
ended March 31, 1963

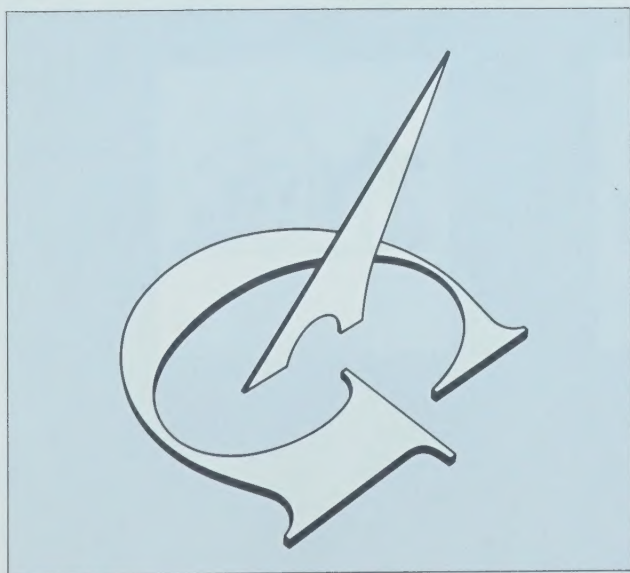




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GRUEN INDUSTRIES, INC.



We proudly present our Annual Report for the fiscal year ended March 31, 1963.

To begin to detail the accomplishments of Gruen, in this our 89th year, would require space far beyond this report. Suffice it to say that our horological research has pioneered notable technical advances in watchmaking. Since 1874, Gruen has been distinguished for styling, famed the world over for precision accuracy . . . a leader in fine Swiss watches.

The quality reputation of Gruen is constantly reaffirmed by new horological achievements . . . new advances in styling . . . and by offering a product that represents the utmost in fine watch value.

We promise you a continuation of these efforts in the years ahead.



Bienne, Switzerland



New York, New York



Geneva, Switzerland



Toronto, Canada

GRUEN INDUSTRIES, INC.

FACTORIES

New York, New York
Bienne, Switzerland
Toronto, Canada

DIRECTORS

JOHN H. BALLARD
President
Gruen Industries, Inc.

RUDOLPH EPSTEIN
Vice President
Secretary and Treasurer
Gruen Industries, Inc.

SOL GOODMAN
Partner
Goodman & Goodman
Cincinnati, Ohio

RICHARD P. LOFTUS
Partner
Cahill, Gordon, Reindel & Ohl
New York, New York

EDWARD L. LOVE
Chairman of the Board
Gruen Industries, Inc.

GRAHAM D. MATTISON
New York, New York

ALFRED P. PESTALOZZI
Director
Gruen Watch Mfg. Co., S.A.
Bienne, Switzerland

CORPORATE AND EXECUTIVE OFFICERS

The Gruen Building
20 West 47th Street
New York 36, New York

OFFICERS

EDWARD L. LOVE
Chairman of the Board

JOHN H. BALLARD
President

RUDOLPH EPSTEIN
Vice President
Secretary and Treasurer

IRVING A. KATHMAN
Vice President
Director of Sales

RALPH M. SOMERFIELD
Vice President—Advertising

HAROLD GORDON
Ass't Treasurer and Ass't Secretary

GENERAL COUNSEL
CAHILL, GORDON, REINDEL & OHL
New York, New York

TRANSFER AGENT
THE CHASE MANHATTAN BANK
New York, New York

REGISTRAR
EMPIRE TRUST COMPANY
New York, New York

GRUEN WATCH COMPANY OF CANADA, LTD. TORONTO, ONTARIO

DIRECTORS

JOHN H. BALLARD
RUDOLPH EPSTEIN
EDWARD L. LOVE
HERBERT G. MORTIMER
HAMILTON J. STUART, Q.C.

OFFICERS

EDWARD L. LOVE
Chairman of the Board

JOHN H. BALLARD
President

OFFICERS (CONT.)

RUDOLPH EPSTEIN
Vice President
Treasurer and Ass't Secretary

HERBERT G. MORTIMER
Vice President & General Manager

HAMILTON J. STUART, Q.C.
Vice President

A. R. COUSINS
Secretary and Comptroller

The Annual Meeting of Stockholders of Gruen Industries, Inc., will be held at 11:00 a.m. D.S.T., July 16, 1963, on the 3rd floor of the Gruen Bldg., 20 West 47th Street, New York, New York. If you cannot attend the meeting, it will be appreciated if you will sign and return the enclosed proxy as promptly as possible.

TO OUR STOCKHOLDERS AND EMPLOYEES

We are pleased to report further substantial progress in all phases of the Company's operations during the fiscal year ended March 31, 1963. For the third consecutive year under present management Gruen's watch production and sales increased, and the improvement in earnings was even more significant. Our consolidated net income for the fiscal year was \$679,124 as compared with \$10,660 (before special credit) for fiscal 1962, and a loss of \$508,759 for fiscal 1961. Because of the carry-forward of losses of prior years, no provision for federal income taxes was necessary.

A substantial increase in retail jeweler accounts and higher demand at the customer level as well as the conservative financial policies of the Company have been of primary importance in the rebuilding of your Company over the past three years.

To meet domestic sales requirements capacity was increased at our plant in Switzerland through the addition of a number of new employees and the purchase of additional machinery. Quality and efficiency were also improved in our domestic assembly and shipping operations. Modernization of our repair department has increased customer satisfaction through faster and better service. In Canada our new management has proved highly effective, and sales there have increased substantially.

Our finished inventories are now at a very low point, and the finished goods obsolescence problem of the past years no longer exists. It is hoped that this year we may be able to consider reducing the burdensome long term debt carried over from prior years. Interest on this debt has, of course, been a drain on profit. During the past year we prepaid

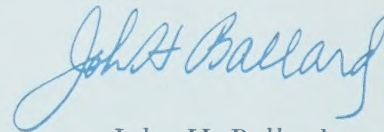
\$100,000 of our subordinated debt in connection with the settlement of the litigation relating to the sale of our former Electronics Division referred to in previous reports. This settlement was made at no additional cost and eliminated a contingent liability of \$800,000.

Though there remain many problems to be overcome, we enter our 90th year of operations with renewed confidence. We thank our employees, customers and stockholders for their continued support.

June 21, 1963



Edward L. Love
Chairman of the Board



John H. Ballard
President

**THE GRUEN WATCH
MANUFACTURING COMPANY
S.A., BIENNE, SWITZERLAND**



Bienne, Switzerland

Gruen's plant in Switzerland has the most modern watch and precision manufacturing facilities available. At Gruen in Switzerland, automation is a reality—not just a theory.

To begin to detail the technical watchmaking achievements of Gruen, Bienne . . . the advancements in horology . . . would encompass a book by itself. It is recorded history in the watchmaking world. The proud name of Gruen today represents the tradition of generations of dedicated craftsmen, whose efforts have contributed so much to the Watchmaking Industry.

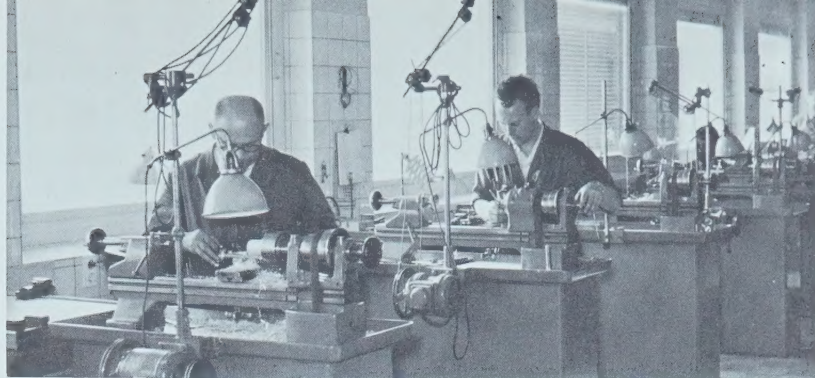
To maintain this high standard of leadership GRUEN places heavy emphasis on research and development. In our modern Bienne plant, space allocated to research and testing occupies three times the area formerly set aside. This is the heart of GRUEN . . . the very latest technological improvements in automation and electronics.

Here then, are some of the intricate and exacting phases of watch production at Gruen, Bienne.

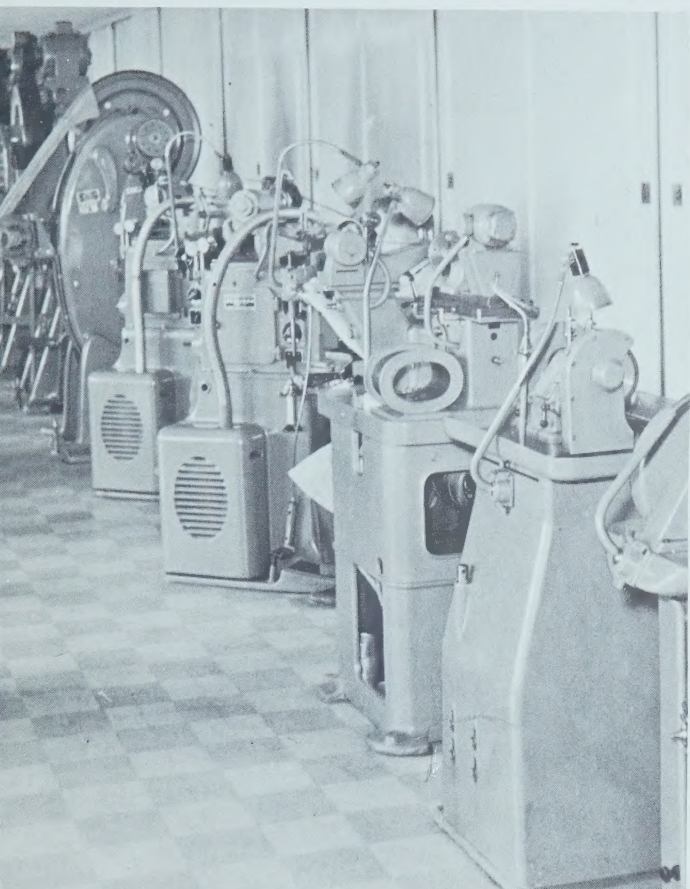
First, tons of brass rods are sorted out in storage-cupboards near ten great presses, which cut out and “true” the plates and bridges; automatic machines drill holes so tiny that they cannot be stamped out. They then pass through the planing-machine, are “verified” for thickness electronically . . . and then automatically degreased. Heat treated to eliminate internal stresses built up in the stamping process—they are now ready for the actual process of manufacture.

The process begins when the parts travel along the production line to be machined. The parts are automatically placed on the thin belt of a conveyor of the same height as the work-benches, connecting the successive points at which the various operations are effected. After each operation, the parts are thrown out into a metal chamber and placed by the operator on the machine, the speed of which is adapted to the standard rate of production, whether it is a drilling-machine, a threading-machine that taps 40,000 holes a day, or cleaning and gauging points. Automation is insured electronically. After completing its operation, each machine restores the parts to the perpetually moving conveyor belt, and records production both on the operator's individual counters and on the central control-panel.

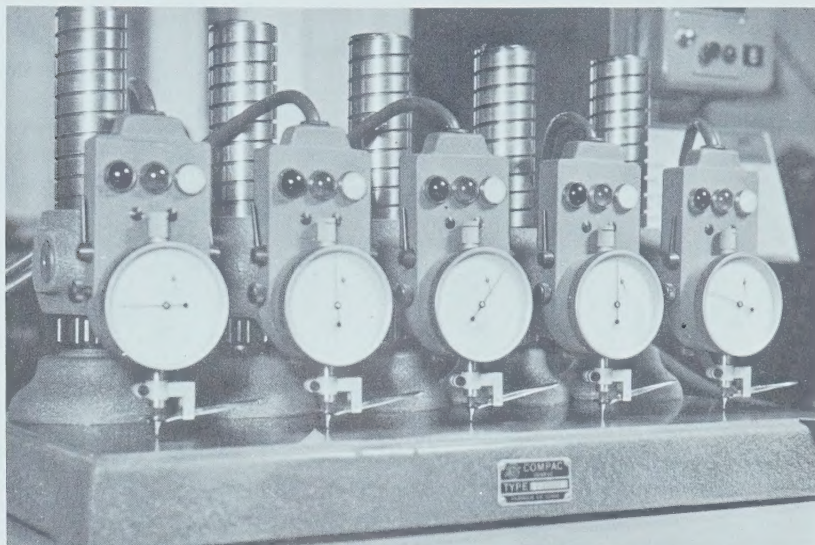
From machining to electrolytic burr-removing, infrared drying and nickel-plating, the belt moves steadily on from bench to bench and from room to room. It comprises 36 groups or working-points for the manufacture of plates and 50 for the manufacture of bridges. Then comes the work of assembly, simplified as far as possible, with automatic machines.



Toolmakers' lathes



A small segment of Bienne plant showing heavy duty machines



Multiple gauge indicator—automatically records plus or minus various tolerances

Ultrasonic cleaning, introduced by GRUEN in 1948, represents a great step forward; it is one of the finest safeguards of precision in a watch. This is one of the essential stages in this careful procedure. When the movement is finished, electronic verification again comes into its own with the dual-head super-spiromatic, which counts the oscillations of balance-springs, and the vibrografs. Stocking—which, at the present rate of production is of brief duration—is provided for in an insulated chamber in which temperature and humidity are kept constant, thus insuring perfect protection for the watch, its springs and its oils.

This is only partly due to traditional equipment—universal lathes, uprighting-tools, stroboscopes and oscillographs. The greater part of the plant represents original GRUEN research, for our firm's engineers have constructed many machines that remain our exclusive property, such as transistorized apparatus for analyzing the watch and recording variations of amplitude; the transfer machines with five lateral and twenty vertical elements, or the profile-corrector combining projection and correction of the part by grinding.

From the photo-electric cell to the metallographic microscope and the transistor; from chemistry to micromechanics and physics, all the resources of science have been not only adopted, but adapted, by GRUEN. These efforts are concentrated towards one result . . . a watch movement of precision perfection . . . GRUEN.



GRUEN INDUSTRIES, INC. AND CONSOLIDATED BALANCE

ASSETS (Note 2):

Current assets:

| | | |
|------------|------------|------------|
| Cash | \$ 438,481 | \$ 402,132 |
|------------|------------|------------|

| | | |
|--|-----------|-----------|
| Notes and accounts receivable, trade, less allowance for doubtful notes and accounts | 3,250,455 | 3,194,320 |
|--|-----------|-----------|

| | | |
|---|-----------|-----------|
| Inventories, at the lower of cost or market | 2,513,727 | 2,102,763 |
|---|-----------|-----------|

| | | |
|------------------------|---------------|---------------|
| Prepaid expenses | <u>59,719</u> | <u>72,142</u> |
|------------------------|---------------|---------------|

| | | |
|----------------------------|-----------|-----------|
| Total current assets | 6,262,382 | 5,771,357 |
|----------------------------|-----------|-----------|

| | | |
|---|---------|---------|
| Property, plant, improvements to leased property, and equipment, at cost, less allowances for depreciation and amortization, 1963, \$1,499,078; 1962, \$1,431,093 | 672,298 | 709,668 |
|---|---------|---------|

| | | |
|-------------------------------|--------------------|--------------------|
| Patents and trade-marks | <u>1</u> | <u>1</u> |
| | <u>\$6,934,681</u> | <u>\$6,481,026</u> |

SUBSIDIARIES

SHEETS, MARCH 31, 1963 AND 1962

| | 1963 | 1962 |
|---|--------------------|--------------------|
| LIABILITIES: | | |
| Current liabilities: | | |
| Notes payable to banks (Note 2) | \$ 943,195 | \$1,220,000 |
| Accounts payable | 516,124 | 526,856 |
| Accrued items | 489,685 | 343,043 |
| Total current liabilities (Note 3) | <u>1,949,004</u> | <u>2,089,899</u> |
| 5% long-term notes payable to bank under term loan and pledge agreement (Notes 2 and 3) | 4,057,000 | 4,057,000 |
| Other long-term notes payable (including accrued interest) subordinated to long- term notes payable to bank | 351,800 | 436,374 |
| 6% subordinated convertible notes due 1974 (Note 4) | 2,500,000 | 2,500,000 |
| CAPITAL: | | |
| Capital stock: | | |
| Preferred stock, 4½ per cent cumulative, \$100 par value; authorized 25,000 shares, issued and outstanding, none. | | |
| Common stock, \$1 par value; authorized 4,000,000 shares; outstanding 505,337¾ shares (Notes 4 and 5) .. | 505,338 | 505,338 |
| Amounts paid in excess of par value of capital stock (unchanged during year) .. | 368,570 | 368,570 |
| Retained earnings (deficit) (Notes 6 and 7) | (2,797,031) | (3,476,155) |
| | <u>\$6,934,681</u> | <u>\$6,481,026</u> |

CONSOLIDATED STATEMENTS OF INCOME

YEAR ENDED MARCH 31

| | 1963 | 1962 | 1961 | 1960 |
|---|-------------------|------------------|-------------------|--------------------|
| Gross profit on sales | \$3,926,371 | \$3,106,191 | \$2,439,622 | \$ 994,189 |
| Selling, advertising, administrative and general expenses | 2,698,936 | 2,532,740 | 2,440,118 | 2,568,595 |
| Operating profit or loss | 1,227,435 | 573,451 | 496 | 1,574,406 |
| Other income, gain on sale of assets | | 10,284 | | 176,036 |
| | <u>1,227,435</u> | <u>583,735</u> | <u>496</u> | <u>1,398,370</u> |
| Other deductions: | | | | |
| Interest, net | 440,876 | 447,059 | 466,512 | 316,500 |
| Discounts, net | 105,323 | 98,442 | 41,751 | 28,107 |
| Loss on Canadian exchange | | 26,183 | | |
| Idle plant expense | | | | 64,827 |
| Miscellaneous, net | 2,112 | 1,391 | | 22,919 |
| | <u>548,311</u> | <u>573,075</u> | <u>508,263</u> | <u>432,353</u> |
| Net income or loss (Note 8) . . . | <u>\$ 679,124</u> | <u>\$ 10,660</u> | <u>\$ 508,759</u> | <u>\$1,830,723</u> |
| Depreciation and amortization included in costs and expenses above | <u>\$ 80,339</u> | <u>\$ 79,477</u> | <u>\$ 88,915</u> | <u>\$ 109,726</u> |

The accompanying notes are an integral part of these financial statements.

AUDITORS' REPORT

To the Board of Directors
Gruen Industries, Inc.
New York, N. Y.

We have examined the consolidated balance sheets of GRUEN INDUSTRIES, INC. and SUBSIDIARIES as of March 31, 1963 and 1962 and the related consolidated statements of income for the four years ended March 31, 1963. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the consolidated financial position of Gruen Industries, Inc. and Subsidiaries at March 31, 1963 and 1962 and the results of their operations for the four years ended March 31, 1963 in conformity with generally accepted accounting principles applied on a consistent basis.

New York, June 3, 1963.

LYBRAND, ROSS BROS. & MONTGOMERY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of Consolidation:

The consolidated statements include the accounts of all the Company's wholly-owned subsidiaries, which are located in Canada and Switzerland. Foreign accounts have been translated at appropriate rates of exchange, and all inter-company accounts and transactions have been eliminated. At March 31, 1963, net current assets of such subsidiaries were \$1,276,233 and their net noncurrent assets were \$553,320.

2. Assets Pledged as Collateral:

The following assets were pledged as security for bank loans:

| | March 31 | |
|---|-----------|-----------|
| | 1963 | 1962 |
| Pledged for current notes payable: | | |
| Cash in bank | \$ 27,335 | \$ 18,017 |
| Notes and accounts receivable | 1,204,156 | 1,263,694 |
| Pledged under term loan and pledge agreement for long-term notes payable: | | |
| Outstanding shares of certain subsidiaries, which had net assets of | 615,244 | 645,742 |

The terms of the term loan and pledge agreement require the maintenance of net current assets of the parent company (as defined) of at least \$2,000,000. Net current assets of the parent company at March 31, 1963 amounted to \$3,047,995.

3. 5% Long-Term Notes Payable to Bank under Term Loan and Pledge Agreement Consist of:

| | |
|--|--------------------|
| Series A notes, \$390,000 payable on April 1, 1964 and October 1, 1964 | \$ 780,000 |
| Series B notes, \$299,000 payable semi-annually on April 1 and October 1, 1965 through April 1, 1967, and \$302,000 on October 1, 1967 | 1,797,000 |
| Series C notes, \$246,000 payable semi-annually on April 1 and October 1, 1965 through April 1, 1967, and \$250,000 on October 1, 1967 | 1,480,000 |
| Total | <u>\$4,057,000</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. 6% Subordinated Convertible Notes:

Annual prepayments of \$375,000 are required beginning in 1970. \$1,000,000 of the notes may be converted into common stock of the Company at \$5 per share, and \$1,500,000 at \$3 per share, subject to certain defined adjustments. 700,000 shares of common stock are reserved for such conversions.

5. Stock Option Plan:

Transactions under the restricted common stock option plan as approved by the stockholders on December 29, 1959, were as follows:

| | Option Prices per Share | Number of Shares |
|---|----------------------------|---------------------|
| Options outstanding, March 31, 1962 (expiring between 1967 and 1970) | \$3.00 to \$4.3125 | 78,500 |
| Options granted during year (expiring in 1970) | \$3.00 | 10,000 |
| Options outstanding March 31, 1963 (exercisable 29,000 shares) | | 88,500 |
| Available for options | | 11,500 |
| Reserved for sale to officers and employees at March 31, 1963 | | 100,000 |

No options under the plan were exercised.

6. Restrictions on Dividends and Capital Stock:

The term loan and pledge agreement prohibits, without prior written consent of the bank, the payment of dividends (other than a dividend payable in stock of the Company) and the purchase, redemption or retirement of any of the stock. Also, under the terms of the 6% subordinated convertible notes, dividends (other than in stock of the Company) may not be paid at the present time.

7. Retained Earnings (Deficit):

| | | |
|---|---------------|---------------|
| Balance, April 1, 1959 | | (\$1,254,817) |
| Reduction of prior years' provision for foreign taxes | | 107,484 |
| Net income or (loss) : | | |
| Year ended March 31, 1960 | (\$1,830,723) | |
| Year ended March 31, 1961 | (508,759) | |
| Year ended March 31, 1962 | 10,660 | |
| Year ended March 31, 1963 | 679,124 | (1,649,698) |
| Balance, March 31, 1963 | | (\$2,797,031) |

8. No provisions for federal income taxes were required in 1963 and 1962 because of prior years' net operating losses carried forward in accordance with provisions of the Internal Revenue Code. Had such carry-overs not been available, provisions in the amounts of \$363,500 and \$23,400, respectively, would have been required.

WE PROUDLY PRESENT

From Gruen's pre-tested line of quality Swiss Watches . . . 4 models to set the style for America's Fashion Conscious. In classic distinction, with an excellence of design worthy of fine jewelry creations . . . truly Gruen is the watch you wear with confidence and pride.



**AUTOWIND
DATEMASTER**



AIDA



DIAMOND CHARM



DUKE

OUR 89TH YEAR



GRUEN INDUSTRIES, INCORPORATED